

Message Text

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E.O. 11652: GDS

TAGS: EFIN, EEW, EALR, PL, GW

SUBJECT: NEW DM 500 MILLION GERMAN CREDIT TO POLAND

REF : BONN 06700

1. SUMMARY: A GERMAN BANKING CONSORTIUM UNDER THE LEADERSHIP OF DRESDNER BANK SIGNED FRAMEWORK AGREEMENTS IN FRANKFURT AND LUXEMBURG ON DECEMBER 3 WITH THE POLISH STATE FIRM FOR HEAVY ENGINEERING PROJECTS POLIMEX-CEKOP FOR CREDITS TOTALING DM500 MILLION AS AN INITIAL FINANCING PACKAGE FOR THE DM2.5 BILLION COAL LIQUIFICATION PROJECT AGREED TO THIS SUMMER BETWEEN A GROUP OF GERMAN FIRMS HEADED BY KRUPP-KOPPERS AND POLIMEX-CEKOP. SUBSEQUENT FINANCING FOR THE PROJECT WILL BE TIED TO GERMAN EQUIPMENT PURCHASES. END SUMMARY.

2. THIS DM500 MILLION CREDIT IS DESIGNED AS THE FIRST OF SEVERAL CREDIT PACKAGES TO BE TAILORED TO MEET BOTH LOCAL COSTS AND PAYMENT NEEDS FOR GERMAN EQUIPMENT AND ENGINEERING SERVICES AS THE VARIOUS STAGES OF THE COAL LIQUIFICATION PROJECT ARE BEGUN. THIS DM 500 MILLION CREDIT CAN BE USED FOR LOCAL POLISH COSTS, BUT IS ITSELF CAREFULLY TIED TO SUBSEQUENT PURCHASES OF GERMAN EQUIPMENT AND TECHNOLOGY. IN ADDITION TO DRESDNER BANK, OTHER CONSORTIUM MEMBERS INCLUDE DEUTSCHE BANK, COMMERZBANK, BAYRISCHE LANDES BANK, AND THE WESTDEUTSCHE LANDES BANK.

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3. DETAILS OF THIS INITIAL FINANCING PACKAGE WERE DESCRIBED BY DRESDNER AND DEUTSCHE BANK REPRESENTATIVES AS FOLLOWS: A FIRST PORTION OF THIS LOAN IN THE AMOUNT OF DM200 MILLION WILL BE FINANCED THROUGH LUXEMBOURG SUBSIDIARIES OF THE PARTICIPATING BANKS. TWO RATES ARE SAID TO APPLY FOR THIS DM 2000 MILLION EUROMARKET-FINACED PORTION: HALF OF THIS AMOUNT PAYABLE OVER 7 YEARS AT 1 1/2 PERCENT OVER LIBOR; AND THE SECOND HALF PAYABLE OVER FIVE YEARS AT 1 3/8 PERCENT OVER LIBO. THE REMAINING DM300 MILLION IS SAID TO CARRY AN INTEREST RATE AT 3/4 PERCENT OVER THE AKA (AUSFUHR KREDIT ANSTALT) RATE. PAYABLE OVER SEVEN YEARS, THIS DM3000 MILLION, WHICH CAN BE USED FOR LOCAL POLISH COSTS, IS NOT DISBURSABLE UNTIL NOVEMBER 1978: DISBURSEMENT IS ALSO CONTINGENT UPON PLACEMENT OF SUBSEQUENT ORDERS FOR GERMAN EQUIPMENT FOR IMPORTED COMPONENTS. IN ADDITION, THERE IS A PROVISION FOR AN EX POST CALLED FOR REPAYMENT OF THE DM 200 MILLION PORTION OF THE LOCAL COST FINANCING UNLESS ORDERS SUBSEQUENTLY ARE PLACED FOR GERMAN EQUIPMENT FOR THE IMPORTS.

4. DRESDNER BANK, WHICH HAS SHOWN SOME SELECTIVITY IN PARTICIPATION IN CREDITS TO EASTERN EUROPE, MAINLY ON A PROFITABILITY BASIS, CONSIDERS THIS PIECE OF BUSINESS ATTRACTIVE ON SEVERAL COUNTS. THE CURRENT HIGH LEVEL OF POLISH INDEBTEDNESS NOTWITHSTANDING, RISK IS CONSIDERED ACCEPTABLE, SINCE EVEN THE LOCAL COST PORTION OF THE OVERALL PROJECT FINANCING IS INDIRECTLY TIED TO POLISH PURCHASES OF GERMAN EQUIPMENT; FINANCING OF EQUIPMENT PURCHASES WILL BE FULLY COVERED BY THE GERMAN GOVERNMENT; AND THE COAL LIQUEFACTION PROJECT ITSELF WILL CONTRIBUTE DIRECTLY TO POLISH ABILITY TO HANDLE DEBT OBLIGATIONS. THE INTEREST RATE STRUCTURE TOGETHER WITH MANAGEMENT FEES IS ALSO CONSIDERED ATTRACTIVE.

5. A DEUTSCHE BANK OFFICER WITH RESPONSIBILITIES FOR EASTERN EUROPE, WHILE NOT DEPRECATING THE ATTRACTIVENESS OF THE TRANSACTION FROM A BUSINESS VIEWPOINT, STATED THAT ASSISTANCE TO THEIR CLIENTS (THE GERMAN EQUIPMENT EXPORTERS), AND A RESPONSIVENESS TO THE WISHES OF THE GERMAN GOVERNMENT AS PART OF THE OSTPOLITIK ARE CONFIDENTIAL

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MAJOR DETERMINANTS IN HEAVY GERMAN BANK INVOLVEMENT IN THIS TYPE OF FINANCING FOR MAJOR POLISH INDUSTRIAL PROJECTS. THIS VIEW WAS FURTHER CONFIRMED BY A FRANKFURT-BASED CHICAGO NATIONAL BANK OFFICIAL WITH RESPONSIBILITIES FOR EASTERN EUROPE WHO STRESSED THE IMPORTANCE OF OSTPOLITIK IN GERMAN READINESS TO EXTEND THESE LARGE CREDITS TO POLAND. SPECIFICALLY, HE PINPOINTED THE INCLINATION OF KEY DECISION-MAKERS

AMONG BOARD MEMBERS OF THE LARGE GERMAN BANKS TO
ACCEDE TO THE WISHES OF THE GERMAN GOVERNMENT IN
THIS RESPECT.LEHMANN

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